

ORIGINAL

BEFORE THE
STATE LANDS COMMISSION
OF CALIFORNIA

--000--

Reporter's transcript of the
meeting held at 3:00 p.m.,
July 13, 1959, in Room 5114
of the State Capitol,
Sacramento, California

--000--

JEANNE E. RHEA
Hearing Reporter
1215 Q Street
Sacramento 14, California

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26

BEFORE THE
STATE LANDS COMMISSION
OF CALIFORNIA

--oOo--

In the Matter of Co-operative
Agreements, Water Injection,
Fault Blocks II and III (Tar,
Ranger, Upper Terminal and
Lower Terminal Zones), Wilmington
Oil Field L.B.W.O. 10,100 and
L.B.W.O. 10,101.

The above-entitled matter came on regularly
at 3:00 p.m., July 13, 1959, in Room 5114,
of the State Capital Building, Sacramento,
California.

--oOo--

Present:

Lt. Governor Glenn Anderson, Acting Chairman
Alan Cranston, Controller
Fred Zwieback, Executive Secretary
Howard S. Gordin, Deputy Attorney General
Francis J. Hortig, Executive Officer, Lands Comm.
Phillip J. Brady, Deputy Attorney General
Frank J. Hardesty, Chief Petroleum Engineer,
Long Beach Harbor Department.

1 LT. GOV. ANDERSON: We will call the meeting to order.
2 We only have the one calendar item. Frankly, I would like
3 to have Mr. Hortig explain this a little bit in more detail
4 than which is just in here because there are some points
5 which I would like to ask questions on and if he explains it
6 maybe he will answer them in that explanation.

7 MR. HORTIG: Would you care to ask specific questions
8 or should I just start at the beginning?

9 GOV: I would like to know the difference between what
10 this agreement is and what the end agreement would have been.
11 That is a negotiation between the Attorney General of Long
12 Beach and the oil companies? In other words, what will we
13 be approving that differs from the ultimate end that most of
14 us want?

15 MR. HORTIG: The answer to that, Governor, I think
16 requires, first, a separation of the elements in that we
17 actually have had discussions and reviews with the City of
18 Long Beach over a period of time involving two different
19 sets of subject but overlying the same geographic area.
20 One is that set of requirements imposed on the Commission
21 for a determination of the boundary lines of the tidelands
22 previously granted to the City of Long Beach which is re-
23 quired by Chapter 2000, Statute of 1957, and which, by its
24 terms, however, does not involve any operations in the oil
25 field, as such. It may redistribute, conceivably, the
26 ownership of operations in the oil field by reason of

1 determining the proper location of the boundary lines, but
2 this does not, per se, pertain to the actual operations for
3 extraction of oil or repressuring operations, which it is
4 hoped may eliminate the land-surface subsidence.

5 The problem before the Commission today is the
6 consideration for approval of two cooperative operating
7 agreements.

8 GOV: This is the second portion?

9 MR. HORTIG: That is correct, which relates specifically
10 to operating requests of the Wilmington oil field, as such,
11 and that is all that is before the Commission for consideration
12 today.

13 Now, this, in turn, does have some of the elements
14 which you referred to in that the agreements before you
15 today again are not the hoped for ultimate final type of
16 agreement and final type of operation for the field, but the
17 two agreements are interim agreements which will permit
18 operations to go on at an expanded rate. It is hoped, with
19 extended benefits to subsidence alleviation during the period
20 of time that the legal and negotiation problems are being
21 resolved which will generally permit unitized operation of,
22 not only each fault block within the Wilmington field, but
23 the entire Wilmington oil field operation.

24 GOV: Holding it strictly to the operating question
25 side of this, what is there that we are agreeing to in this
26 interim agreement that would differ from the final one?

1 What points of difference are there in operation, solely?

2 MR. HORTIG: Substantially, only the differences in
3 definition between what was normally considered a cooperative
4 operating agreement against a unit agreement for operation
5 within an oil field and that difference can be summarized
6 very simply in this manner: (Indicating on map) If we
7 consider, for a moment, this map, it borders two fault
8 blocks. Fault Block III which, for general purposes, makes
9 it a separate oil field on its own and is a subject for
10 consideration before the Commission today. We consider this
11 as a separate oil field with side boundaries. It is also
12 divided as to ownership to approximately this shoreline, as
13 I am indicating here. Seaward, the area of the field consists
14 of tide merge land granted by the State of California to
15 the City of Long Beach and currently being operated by an
16 operating contract by the Long Beach Company.

17 Landward of that same boundary line we have private
18 ownership operating the portion of the field under the
19 cooperative agreements proposed to be considered today, both
20 for Fault Block III and for Fault Block II immediately to
21 the west.

22 The mechanism is established simply to provide
23 that the City of Long Beach shall continue to operate its
24 lands; the private owners will continue to operate their
25 own lands but they will do it in a manner which is compatible
26 so there will be no pressure differences created which will

1 drive private oil on the tidelands and, normally, to prevent
2 State and City tideland oil being driven from the tidelands
3 into the privately owned land.

4 However, again under the terms of this cooperative
5 agreement, in the event that the latter should continue,
6 in that tideland oil actually is driven into and recovered
7 from wells on private owned lands the private operators
8 are obligated to agree to deliver back to the City of Long
9 Beach the excess production which results in the private
10 well by reason of the City's expanded operations.

11 Now, the essence of the thing is: In a cooperative
12 agreement each operator operates his own property but
13 trying to do it on a mutually satisfactory basis, or, the
14 ultimate type of agreement for operating an oil field is
15 the so-called unit agreement, on which negotiation and
16 studies are proceeding, at which time, for example, the
17 entire operations in Fault Block "II", at some date in the
18 future, will all be thrown into a common pool. One
19 operator will be designated and the entire area will be
20 operated under one set of operating criteria by one operator
21 for the benefit of all land owners rather than having two
22 sets of operators.

23 GOV: Will he do his own pressurizing as if there was
24 a unitized program where a single operator would be doing
25 the whole thing?

26 MR. HORTIG: Normally he will not. This is one of the

1 reasons a cooperative agreement ordinarily isn't as eminently
2 satisfactory as a unit operation because, by definition,
3 in a unit operation the operation, over the entire area,
4 will be conducted in such a manner as to the best interests
5 of the entire area.

6 However, there are certain legal questions that
7 have to be resolved before the City of Long Beach can
8 designate their granted tideland area to a unit plan; so,
9 while those are being studied and adjudicated it is felt
10 desirable that in the interim, rather than doing nothing,
11 to enter into these agreements which will permit expanded
12 operations.

13 It is hoped for increased subsidence alleviation
14 but not with the same degree of efficiency or degree of
15 uniformity that will be possible when the entire area
16 can be operated. Less water will be put in under this
17 cooperative agreement than if it were unitized.

18 GOV: Would it come in from the tidelands side?

19 MR. HORTIG: It isn't necessarily a case, Governor,
20 of necessarily having less water but the distribution of
21 the water may be such that it isn't distributed and
22 operated as efficiently as though the area could be con-
23 sidered as a complete unit without this boundary division.

24 On the other hand, as to the second part of your
25 question, under these cooperative agreements there are
26 more engineering programs ready to go and there are

1 actually wells being drilled on the City's tideland portion,
2 so that there will be more water put into the City's
3 portion sooner than will probably be done on the uplands.
4 We already have that, in balance, that there is more water
5 going to the tide land area in Long Beach than is being
6 injected to the private tide land owners. They would
7 prefer, as far as efficiency and economics, to put most
8 effort into a unit operation although they have taken, in
9 this case, some preliminary steps, putting some additional
10 water into their property under these cooperative agree-
11 ments although they are not under any obligation to do so.
12 They put the water in and it will be a matter of coopera-
13 tion and not a matter of contract.

14 GOV: If we sign this today will this be deterrent
15 to bringing the eventual agreement we want to sign? In
16 other words, will this take care of enough of the problem
17 so people can sit on their hands and not do anything?

18 MR. HORTIG: I believe not. I don't believe the
19 efficiency can be achieved for both tidelands and, par-
20 ticularly, the uplands under these cooperative agreements
21 which the upland operators recognize has to be achieved
22 and which they feel can and should be achieved under a
23 unit operation.

24 Therefore, I feel that it is recognized, in all
25 sincerity, by all parties that these agreements which
26 are up for approval today are interim agreements only

1 and if the judicial processes could be speeded and a legal
2 determination could be gotten that these City tidelands
3 can be appropriately included in the unit agreement, I
4 think all efforts would be expended on that approach.
5 This you have before you is only a stopgap but is a step
6 in the right direction.

7 GOV: If most of the pressurizing is developed from
8 the City of Long Beach side are we protected enough, then,
9 by this balancing whereby they get so much more oil, then,
10 than they do now? Are we protected on this?

11 MR. HORTIG: Definitely. The ultimate difficulty
12 with the program is if the upland operators should decide
13 to never do anything more than operate under these
14 cooperative agreements it would be that the upland properties
15 would probably continue to sink to the extent that the
16 repressuring does alleviate subsidence. It would be
17 effective, primarily, only in the tideland area although,
18 in this instance, they cover particularly the area that is
19 occupied on the surface by the Long Beach Naval Shipyard,
20 so, to that extent it is desirable that more operations
21 take place under that area and immediately.

22 I think that we have the other very strong
23 incentive on the part of the upland operator and that is
24 those water flooding programs which have already been
25 undertaken and, in general, have indicated...

26 GOV: Are they in this same area, here?

1 MR. HORTIG: They are in the same portion here but to
2 a limited extent, but to the extent they have been operated.
3 They indicate that whether or not this is a panacea for
4 subsidence alleviation, it is a way for getting substantially
5 more oil out of the oil field with a handsome profit with
6 estimates ranging from recovering three times as much oil
7 under an effective repressuring program than would be
8 possible if the repressuring were not undertaken.

9 Now, this is possibly an ultimate and outside figure
10 and might have applied had the program been undertaken full
11 scale possibly as long as ten years ago, but I don't believe
12 there is any engineering doubt that, even today, the oil
13 recovery could be substantially increased to the point where
14 the repressuring costs are met and additional profits are
15 made and it is hoped that, as a side affect, the land-
16 surface subsidence can either be stopped or slowed down.

17 GOV: The cost of repressuring, when it is done by
18 the individual operator, is paid for by monies of the State
19 Lands Commission and that they, in turn, repay at a future
20 date?

21 MR. HORTIG: No. This has not been the program, yet.
22 There is an authorization under Chapter 5, Statute of 1958,
23 whereby the State, and through the City of Long Beach, could
24 make monies available for this purpose. No operator, however,
25 has required money on this basis, yet. The City of Long
26 Beach subsequently furnished, from a municipally operated

1 water supply system where, under the City's arrangement,
2 the funds are now restricted to funding that City Water
3 Supply system and selling the water at a lower rate than
4 the individual operator. The plant is going to pay for
5 itself and the tideland funds are going to be reimbursed
6 and there will not be the necessity for making any loans
7 to private operators.

8 GOV: Under the cooperative agreement, when these
9 fellows do their own repressurizing they will absorb the
10 cost themselves. They will buy from the City of Long Beach?

11 MR. ZWIEBACK: Who polices this program? That is, when
12 these wells the upland people develop have more productivity,
13 how will we know that?

14 MR. HORTIG: By the terms of the agreements. There is
15 complete interchange of operating data on all operations of
16 Fault Block II and III between all signatory parties. This
17 does work cooperatively. All parties have heretofore made
18 their data available to the Harbor Department of the City
19 of Long Beach who police the situation and they have an
20 excellent staff and whose operations, in turn, are reviewed
21 by the technical staff of the State Lands Commission.

22 GOV: In other words, both the Harbor Commission and
23 yourselves will be a central collecting agency?

24 MR. HORTIG: The Harbor Commission will be the
25 collecting agency.

26 GOV: Any one of the signators can drop out of the

1 program at any time?

2 MR. HORTIG: No, sir.

5 GOV: When can they drop out? How long will it go?

4 MR. HORTIG: May I get one of the men to answer that
5 question who was most active in it? Mr. Brady?

6 MR. BRADY: Governor, the agreements presently provide
7 the means by which the cooperative agreement will no longer
8 be effective. One is when the lands themselves are formally
9 committed to the unit. Once they are merged into the unit
10 then the cooperative agreement is no longer in force or in
11 effect. The second provision, whereby the agreement would
12 be terminated with respect to the.....

13 (Mr. Brady studies papers)

14 MR. ZWIEBACK: Before you leave that point, does that
15 mean this cooperative agreement will be in effect until the
16 realization agreement is concluded or your utilization
17 agreement will be reached? You are supposing that will be
18 reached?

19 MR. BRADY: Yes, I am. The private companies, I might
20 say, and the City of Long Beach have been working diligently
21 for the purpose of formalizing of both Fault Block II and
22 III units. Several drafts have been made and the legal
23 drafting committee is, at the present time, going over
24 what they hope to be the final draft for submission to
25 Management, so this is something that is not in the thinking
26 stage. It has actually been reduced to writing and I under-

1 stand there are only one or two questions which remain to
2 be resolved before they will have the formal unit ready for
3 the Commission.

4 MR. ZWIEBACK: Nobody can get out of this agreement
5 until you...

6 MR. BRADY: (Reading) "This agreement shall continue
7 for so long as oil or gas is produced from the Tar Zone,
8 Ranger Zone, Upper Terminal Zone or Lower Terminal Zone
9 in Fault Block II underlying the lands of any party hereto
10 except that this agreement shall terminate when Long Beach
11 lands are committed to the Fault Block II units provided,
12 however, that notwithstanding the termination of this
13 agreement, the releases and discharges provided in Section
14 14 hereof shall thereafter remain in full force and effect
15 until such time as they are specifically abrogated or
16 modified in writing by all the parties hereto, their
17 successors or assigns."

18 So the answer to your question is that the agree-
19 ment is binding so long as oil is produced from the respective
20 zones or until such time as the cooperative agreement merges
21 in the unit. That applies both to the Fault Block II and
22 III cooperative agreement.

23 GOV: What happens if the group just quits repressuring?

24 MR. BRADY: Let me answer it this way. The agreement
25 will still go on. The other party signatories thereto still
26 have the right to continue their operations and to repressure.

1 MR. HORTIG: In other words, the City of Long Beach
2 lands could continue to be repressured and in the event
3 repressuring did drive oil into the uplands, that portion
4 of the tidelands is still, in effect, requiring redelivery
5 to the City of Long Beach.

6 MR. BRADY: If I might interject, there is one other
7 aspect to this which I think lends practical color to the
8 situation and that is this 1958 session of the Legislature
9 where Assembly Bill No. 5 was adopted which added certain
10 sections to the Public Resources Code provisions made in
11 said bill that in the event the repressuring cannot be done
12 through voluntary means, either by cooperative agreements
13 or unit agreement, which agreements have to be filed with
14 the Supervisor of Oil and Gas and meet with his approval.

15 If this cannot be accomplished then the Supervisor
16 is given the authority to commence proceedings to consider
17 the possibility of ordering the compulsory unit to be
18 formed in that area which would be regulated under State law.

19 The operators are very cognizant that they may be
20 made subject to the compulsory unit order and I feel they
21 will cooperate in maintaining the operations on a voluntary
22 basis.

23 MR. GORDIN: Isn't it also true that the cooperative
24 agreement provides that should a water injection well be
25 drilled by any property owner there is an obligation to
26 maintain and to continue to operate such well if located

1 within three hundred feet of the common boundary between the
2 uplands and the tidelands and that such wells cannot be
3 abandoned except by mutual consent?

4 MR. BRADY: That is correct. There is a definite
5 protection insofar as the City properties in that some one
6 of the operators having wells along the common boundary
7 cannot cease operations without mutual consent of all parties
8 thereto.

9 MR. ZWIEBACK: We are aware there is a possibility of
10 litigation between the State and some of the private
11 operators. Is there anything in this agreement which would
12 give any more validity or less to any of the claims that
13 any of the parties now feel they have?

14 MR. GORDIN: Mr. Zwieback, I believe the answer to your
15 question is "No" because of a specific provision in Public
16 Resources Code Section 6879 pursuant to which the State Lands
17 Commission's approval of today is being sought. That section,
18 in its concluding paragraph, reads as follows:

19 "No agreement executed pursuant to this section
20 shall affect or determine the boundaries of the tide and
21 submerged lands granted in trust to the City of Long Beach
22 by certain designated granting statutes."

23 MR. CRANSTON: I move adoption approving the staff
24 recommendation that these agreements be approved.

25 GOV: Seconded, and it will be approved.

26 MR. CRANSTON: Is that our business? I wonder if the

1 August 27 meeting of the Commission could be in Los Angeles.
2 We planned to be there in July but August 27 would suit me
3 better in Los Angeles.

4 GOV: I'd like to check my calendar. I think so, too.
5 I would rather have most of them in Los Angeles.

6 MR. CRANSTON: I know.

7 GOV: That would be my general feeling. I didn't bring
8 a calendar so I don't know.

9 MR. CRANSTON: Can we do that subject to your approval?

10 GOV: I think so, yes. Anything else? The meeting is
11 adjourned.

12

13 (The meeting adjourned at 3:35 p.m.)

14

15

16

17

18

19

20

21

22

23

24

25

26

CERTIFICATE OF REPORTER

I, JEANNE E. RHEA, reporter for the State of California, hereby certify that the foregoing 14 pages contain a full, true and correct transcript of the shorthand notes taken by me at the subject hearing on the date hereinbefore specified before the State Lands Commission.

Dated at Sacramento, California, July 31, 1959.

Jeanne E. Rhea